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E-Invoicing Compliance Guidelines - Commentary to the Compliance Matrix

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Údarás um Chaighdeáin Náisiúnta na hÉireann

CEN WORKSHOP AGREEMENT

CWA 16047

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English version

E-Invoicing Compliance Guidelines - Commentary to the Compliance Matrix

This CEN Workshop Agreement has been drafted and approved by a Workshop of representatives of interested parties, the constitution of which is indicated in the foreword of this Workshop Agreement.

The formal process followed by the Workshop in the development of this Workshop Agreement has been endorsed by the National Members of CEN but neither the National Members of CEN nor the CEN Management Centre can be held accountable for the technical content of this CEN Workshop Agreement or possible conflicts with standards or legislation.

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COMITÉ EUROPÉEN DE NORMALISATION
EUROPÄISCHES KOMITEE FÜR NORMUNG

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Foreword

This CEN Workshop Agreement (CWA) has been prepared by the CEN/ISSS Workshop on 'e-Invoicing Phase 2' (WS/eInv2)

The CWA has been approved at the final Workshop plenary meeting on 10 September 2009.

This CEN Workshop Agreement is publicly available as a reference document from the National Members of CEN: AENOR, AFNOR, ASRO, BSI, CSNI, CYS, DIN, DS, ELOT, EVS, IBN, IPQ, IST, LVS, LST, MSA, MSZT, NEN, NSAI, ON, PKN, SEE, SIS, SIST, SFS, SN, SNV, SUTN and UNI.

This CWA is part of a set of CWAs that has been prepared by Phase II of the CEN/ISSS Workshop on Electronic Invoicing in the European Community (the Workshop).

The objective of this phase of the Workshop is to help to fill gaps in standardization for the use of electronic invoice processes, to identify the various practices in Member States, to integrate the emerging technical and practical solutions into effective good practices, and to define and disseminate these good practices for e-invoices in close coordination and cooperation with private industry, solution providers and public administrations.

Five initial Projects have been established with a view to supporting the:

1. Enhanced adoption of electronic invoicing in business processes in Europe;
2. Compliance of electronic invoice implementations with the Directive on the Common System of Value Added Tax 2006/112/EC [1] as well as Member States national legislation as regards electronic invoicing;

   ► **NOTE**: *This document also takes into account proposals for the amendment of this Directive as specified in "Proposal for a Council Directive amending Directive 2006/112/EC on the common system of value added tax as regards the rules on invoicing" COM(2009) 21* [2].

3. Cost-effective authenticity and integrity of electronic invoices regardless of formats and technologies;
4. Effective implementation of compliant electronic invoice systems in using emerging technologies and business processes; and
5. Emerging network infrastructure of invoice operators throughout Europe.

This CWA was jointly developed by the groups working on the projects 2 and 3 listed above.

In addition, the Workshop has assumed the overall responsibility, as far as CEN is concerned, for the standards aspects of the European Commission's Expert Group on Electronic Invoicing, complementing and linking with the relevant Commission groups, and ensuring the relevant global standards activities are correctly informed and primed. In this activity, the Workshop aims to ensure collaboration with other CEN/ISSS groups, including WS/BII and WS/eBES, with UN/CEFACT (TBGs1 and 5), ISO TC 68 and ETSI/TC ESI.

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Introduction

The use of electronic methods instead of paper for exchanging, processing and storing tax-relevant invoices is increasingly viewed as a policy objective towards EU competitiveness, economic efficiency and protection of the environment.

While there are many organisations that carry out their e-invoicing in their own in-house data processing centres, the tendency is growing for companies to outsource all or part of their business processes including invoicing to various types of Service Providers. In this CWA, both in-house and outsourced e-invoicing operations are considered.

This CWA seeks to reduce some of the principal areas of uncertainty and resulting inefficiencies on the e-invoicing market with one single set of 'Compliance Guidelines' for both businesses, Service Providers and tax administrations. Such compliance guidelines are needed for the following reasons:

- Regardless of the regulatory framework in place, and regardless of the media used (paper, electronic or a mix thereof), VAT audits will generally require reasonable assurances that invoices are prepared, created, sent or made available, received, processed and stored in ways that allow tax administrations to verify during the storage period that invoices are unique, real, unchanged and accurate.
- Conceptually, electronic invoicing does not differ significantly from paper-based invoicing processes;
- Because electronic invoicing methods can improve both business efficiency and auditability, it is in the interest of all parties to make electronic invoicing as easy as possible.
- Paper-based invoicing has used the same well-known and accepted techniques for many centuries. Businesses that implement electronic invoicing, on the other hand, are often faced with thousands of technical and process implementation options that do not benefit from such historical antecedence or acceptance.
- Legal frameworks around the use of electronic media are not yet fully mature and questions sometimes remain about the compliance or enforceability of certain e-business methods.
- In the absence of implementation-relevant rules emanating from tax administrations or standards bodies, companies and Service Providers are often uncertain that their choices are accepted as sufficiently auditable and VAT-compliant by Tax Administrations. This uncertainty creates a significant barrier to investment in electronic invoicing.
- Corporate e-invoicing users and Service Providers feel insecure about their e-invoicing solutions. They want to be (VAT-) compliant, however today most tax administrations do not provide accreditation services or self-assessment programmes to assist such parties to ascertain that e-invoicing systems are VAT-compliant.
- Tax Administrations also often seek guidance on how to audit e-invoicing solutions.

These E-Invoicing Compliance Guidelines Commentary and the Compliance Matrix have been developed by a team of Tax Administration officials, businesses representatives and tax lawyers drawing on present day knowledge from Member States and business communities. The purpose of these E-Invoicing Compliance Guidelines, see Annex 1, is to provide practioners with an instrument for (self-) certification and to ensure cost-effective auditability. The Guidelines are a solid foundation to start a tax audit in situations where e-invoicing solutions are used. See further the scope of this CEN Workshop Agreement in section 1.3.

The Guidelines provide a framework for a range of approaches to e-Invoicing. While acting in accordance with the Guidelines cannot be a substitute for meeting specific obligations under applicable national law (see 1.4), they can be a strong basis for practices complying with the current legal requirements across Europe and aim to be flexible so that future legal requirements can be accommodated within the Guidelines. They support the range of techniques in use for e-Invoicing. They are applicable to different market sectors which may employ sector specific e-Invoicing practices, technologies and e-Invoice formats within the general EU legal framework.

1 Scope

1.1 Structure of this CWA

This Commentary complements a spreadsheet-based tool (***the Compliance Matrix, given in Annex 1***) developed by CEN in cooperation between companies and tax administrations. The two documents together constitute a multipart CWA called E-Invoicing Compliance Guidelines Commentary and the Compliance Matrix (***the Guidelines***)[1].

This Commentary consists of the following sections:

- **Section 4, Objectives and Process Model**
  Provides an overview of the objectives and process model used as the basis of good practices.
- **Section 5, e-Invoicing Basics**
  Provides basic guidance on good practices for e-invoicing. This is a simplified version of the comprehensive guidance given in section 6. This is particularly relevant to SMEs but also provides a general process basis for and introduction to the comprehensive description of risks and controls given in section 6.
  Whilst section 5 is targeted at SME's, where an SME is trading exclusively with large organisations or using a Service Provider, it may be sufficient for the SME to ensure that practices such as those provided in section 6 are applied by their trading partners or Service Provider.
- **Section 6, Comprehensive Guidance**
  Provides comprehensive guidance on good practices for e-invoicing using the Compliance Matrix. This section is primarily targeted at large organisations and Service Providers to select compliance appropriate to their environment.
- **Section 7, Further Technical Guidance**
  Provides further technical guidance on the use of various business control techniques.
- **Annex 1, E-Invoicing Compliance Guidelines Matrix**
  Provides practioners with an instrument for (self-) certification and to ensure cost-effective auditability

1.2 Target audience

The Guidelines are addressed to:

- Organisations engaged in, or about to introduce, e-invoicing.
- Internal and external auditors.
- Solution and service providers offering e-invoicing functionality.
- Tax Auditors in Tax Administrations.

Readers not familiar with electronic invoicing basics are advised to read Section 5 before reading this whole document or the Compliance Matrix.

1.3 Substantive scope

Companies exchange electronic invoices in a variety of ways. Many large companies carry out their e-invoicing in their own in-house data processing centres; however the tendency is growing for companies of all sizes to outsource all or part of their business processes including invoicing to various types of Service Provider. Also, a range of solutions have been adopted across Europe including those based around use of different types of control mechanisms that best fit each company's unique circumstances.

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[1] The E-Invoicing Compliance Guidelines where initially developed by the Netherlands Tax Administration for Fiscalis. Fiscalis is EU Commission initiative to disseminate good practices across Member State tax administrations For more information about Fiscalis see http://ec.europa.eu/taxation_customs/taxation/tax_cooperation/fiscalis_programme/index_en.htm

The Guidelines seek to provide a single coherent framework for companies to perform electronic invoicing in a cost-effective manner while maintaining a sufficient degree of auditability and legal compliance through good practices in the implementation of business controls. These good practices may be adapted to cover a range of business environments covering SMEs to large organisations. The Guidelines are primarily about ensuring a smooth process from a tax (and in particular EU VAT) perspective; hence, whilst guidance is provided about business processes, the goal is always to balance business-internal goals with the specific legal and auditability requirements arising from VAT.

Specifically, the Guidelines are meant to serve as guidance for companies to ensure cost-effective auditability, and for tax administrations to ensure smooth audits. Importantly, the Guidelines do not address the substantive and core administrative aspects of VAT (determining applicable VAT law, VAT rates, reporting, payment, reclaims etc) but rather the process and technologies required to ensure that a business can prove – and a Tax Administration verify – that the invoices that form the critical component of most countries' tax audit frameworks are reliable.

While some audit techniques allow tax administrations to rely less on the invoice and more on general control frameworks as proof of transactions, such techniques are not expected to reduce the need for organizations to maintain the ability to prove to a tax auditor that the dataset they present as the formal invoice for tax audit purposes (hereinafter referred to as the "Invoice", see 3.2 Definitions) is the real and unchanged Invoice that they issued or received. Generally speaking, companies must therefore be able to prove not only that Invoices were processed or stored correctly within the Supplier's and Buyer's individual spheres of governance and liability, but also that these trading parties' administrative processes were ***aligned to ensure a trustworthy end-to-end process***. While each taxable person has a clearly defined set of responsibilities under VAT laws in the EU and beyond, trading parties must ensure that they have a common understanding of the processes and methods they will apply for ensuring auditability.

The Guidelines provide a common basis for organisations to agree on practices for the handling of invoices so that a coherent and easily auditable approach may be adopted.

1.4 The Guidelines as voluntary self-regulation

The Guidelines are not specific to any Member State and they are not substitute for complying with Member States' individual requirements, but they may assist in clarifying the basics for compliant e-invoicing processes underlying EU Member States' laws relating to e-invoicing and intra community e-invoicing.

While the drafters of these documents hope that this work will contribute to a more homogeneous legal landscape across EU Members States and beyond, the Guidelines are proposed merely as voluntary self-regulation. In case of conflict between the Guidelines and applicable law, the latter shall always prevail. ***For this reason, every requirement and associated control in the Guidelines should be applied with the caveat "To the extent permitted under applicable law,..".*** Future versions of the Guidelines may incorporate specific notifications or amendments in response to conflicts with Member State laws brought to the attention of the group responsible for maintaining the Guidelines.

The Guidelines are not intended as "regulation through the back door" – they will be equally or even more useful in a regulatory environment characterized by free choice of ways in which companies can satisfy reasonable tax requirements. The Guidelines are voluntary and fully neutral as regards technologies and processes companies may choose to adopt. The Guidelines represent just one technique among many other, equally valid and acceptable business process analysis techniques.

The Compliance Matrix is merely a checklist that could be used for self-evaluation and/or self-certification. Not all 100-line-items are applicable for all companies. A business should make a selection suitable for its own business model. To support this selection process, a filter is added based on the most frequently encountered business models in the market today. This does not mean these business models are the only accepted business models. This is a living document; if relevant, other business models will be added and companies practicing alternative models are encouraged to submit these for consideration.

Companies with well functioning processes in place could use the Guidelines as a voluntary check. If this check reveals that certain functional objectives are not currently met, the business could use the good practices of the Guidelines for inspiration to further improve their processes. This is always an individual decision of a business that must take into account that business's unique circumstances.

This CWA supports and is fully compatible with the proposal for a Council Directive amending Directive 2006/112/EC on the common system of value added tax as regards the rules on invoicing (Brussels (2009)21) [2] and endorsed by the European Commission's Expert Group on e-Invoicing (MidtermReport-2009_01_27 [3]).

Although an invoice is an important document and often the only trade document specifically mentioned in VAT legislation, in most cases it is not a standalone document in a sales / purchase process. The Guidelines are built around a trustworthy end-to-end process that business partners may agree to deploy. The Guidelines focus on the e-invoicing process itself, but it is recognized that the invoice process is part of the procurement process.

Some Member States allow companies in certain circumstances to deduct VAT without a secured end-to-end process, purely on the basis of business controls in place (based on the full e-procurement process). The Guidelines acknowledge that, in such Member States, companies that exercise and can prove a high level of internal control do not need to rely on end-to-end controls of transactions in order to prove that transactions were performed. However, every transaction involves two parties and, to use internal controls as the principal mechanism for proving transactions, each party must ensure such internal controls individually. The Guidelines identify four business implementation "classes" for compliant e-invoicing, including good practices for companies that choose to base their approach primarily on internal controls (see Sections 6.2 and 7.2.1).

1.5 Cost-effectiveness

This CWA addresses methods that can be cost-effective to different companies' individual circumstances. The actual cost of maintaining a proper and auditable business process depends on a combination of factors, for example:

- The complexity of a company's existing or planned e-invoicing processes.
- The nature of a company's business (many ad hoc trading relationships or stable supply chain; the average size of trading partners etc).
- A company's existing level of risk (including regulatory compliance) management controls already in place.
- A company's existing resources in relation to VAT/taxation generally. For example, a company with local tax managers in each country where it operates might be more comfortable with a solution that does not strictly meet the letter of the law, but which it believes can nevertheless be explained, while a very centralized company without such resources might want to avoid any risk of explanations to local tax authorities.
- The degree to which a company can re-use e-invoicing controls for other business purposes.

Every company is driven by a natural desire to increase shareholder value and, thus, to maximize sales while reducing costs and risks to the largest possible extent under applicable law. While real and de facto standards around accounting and other back-office operations have created a high level of similarity among administrative business processes, the uniqueness of each company creates a combination of circumstances that to a large extent determine the cost-effectiveness of any set of invoicing controls. It is therefore very difficult to make general statements about the cost-effectiveness of any control set.

The solutions in the Guidelines have been selected to cater to this diversity by describing a variety of approaches that are considered to have the highest potential to be cost effective in many corporate circumstances. Nevertheless, the authors of this CWA have paid specific attention to the needs of Small and Medium sized enterprises (SMEs). SMEs are a key focus of the European institutions and, increasingly, the appropriateness of regulation to SMEs is viewed as a test for the effectiveness and fairness of policy initiatives. SMEs consistently represent 50-70% of EU GDP and provide two thirds of jobs in Europe (NORMAPME March 2008). SME needs are addressed by:

a) Taking a cost / risk balanced approach.

b) Taking a "functional equivalence" approach allowing use of available technologies and processes that achieve the same level of trustworthiness. From these alternatives solutions can be deployed to match the needs of companies of all sizes, with or without the intervention of Service Providers.

c) Providing reference wherever possible to standard solutions which can easily be obtained from a wide variety of vendors.

d) Using procedures which are based on existing recognised business practices.

The cost factors and how they impact on a company's business costs are significantly different. For process-based controls the costs of establishing the appropriate security controls generally involve time from personnel in defining the appropriate security practices as part of the overall business process. In addition systems involved in the process must be adapted to produce appropriate audit trails. Strict auditing and review of the application of the security practices can be very costly if any degree of assurance is required that these practices are properly applied. Data-level controls, on the other hand, can have the benefit of making many such process-level controls unnecessary, but they may require a process and technology to be used that may not have been part of the original design of an information system and business process.